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231336Z Mar 05

C O N F I D E N T I A L MANAMA 000443

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STATE FOR NEA/ARPI DBERNS
STATE PASS USTR JBUNTIN
COMMERCE FOR ITA/MAC/ONE LOUSTAUNAU AND HOFFMAN

E.O. 12958: DECL: 03/14/2015

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SUBJECT: LOFTY GOALS FOR ECONOMIC REFORM IN BAHRAIN

REF: 04 MANAMA 1489

Classified By: Ambassador William T. Monroe for reasons
1.4 (b) and (d).

11. (C) Summary. Crown Prince Salman opened the second of three "national economic plan" workshops February 24. He said Bahrain needs to position itself as an international hub for foreign investment. A McKinsey representative told a crowd of 180 public and private leaders that with "sweeping economic reforms" Bahrain could almost triple its GDP, increase the employment by 55 percent, and double per capita GDP. A survey conducted by the Economic Development Board (EDB) and the Bahrain Chamber of Commerce and Industry (BCCI) detailed a different set of issues that business people view as the greatest impediments to economic growth. While supportive of the need for reform, business leaders are questioning the GOB's ability to engage seriously with the private sector and implement a reform program. End Summary.

Economic Reform a Must

12. (U) In his capacity as EDB Chairman, Crown Prince Salman opened the February 24 workshop by urging Bahrainis to set high standards for economic growth. He stated that despite the many challenges ahead, ambition, will-power, and cooperation will bring economic prosperity to Bahrain. It is in Bahrain's best interest, he declared, to position itself as an international hub for foreign investment. This was the second of three planned workshops aimed at addressing the GOB's "national economic plan." The first workshop, held in September 2004, addressed labor reform; the February 24 workshop covered economic reform; and the third workshop, planned for later this year, will focus on educational reform.

McKinsey Findings

13. (U) McKinsey and Company Middle East Manager Kito De Boer said at the conference that between 2005 and 2010, Bahrain could increase its real GDP to \$27 billion (from \$11.3 billion), create 150,000 new jobs (from a base of 274,636), and double average personal income (from current per capita GDP of \$16,900 on a purchasing power parity basis) if economic reform initiatives were adopted. McKinsey recommended initiatives that include: creating a "fast-track" for high-priority and high-dollar projects; setting up a professionally managed board to direct state-owned companies and oversee privatization efforts; promoting tourism infrastructure investments; and establishing a zoning committee.

Business Reactions

14. (C) A survey of 650 companies encompassing 15 sectors, conducted by the EDB and the BCCI, cited the major impediments to economic growth as: capital and land shortages; red-tape complicating the process of obtaining basic utilities; inadequate enforcement of legislation; and high government interference and favoritism. Prominent businessman Samir Nass told Econoff that he questioned the GOB's ability to turn theory into reality. Crown Prince Chief of Staff Shaikh Mohammed bin Isa Al Khalifa, in an effort to address this sort of skepticism, told the Ambassador February 27 that the Crown Prince's office would personally oversee implementation efforts. We note, however, that there has been no public announcement in this regard.

Comment

15. (C) Considering the lofty economic goals set out by McKinsey, the recommended reforms -- fast-track investments,

privatization, tourism, and zoning -- are surprisingly pedestrian. While undoubtedly beneficial, most believe that these steps would not by themselves lead to a tripling in GDP over 5 years. This may be part of the overall strategy -- declare almost unattainable objectives while really striving to improve the mechanics of doing business. In the meantime, the private sector focus continues to be more on the controversial labor reform package (septel).

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